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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Federal Election Commission's Financial Statements For The Year Ended September 30, 1982

GAO examined the financial statements of the Federal Election Commission for the year ended September 30, 1982. The examination was made at the request of the Commission and in accordance with generally accepted government auditing standards.

In GAO's opinion the financial statements present fairly the financial position of the Commission as of September 30,1982, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

GAO also reports that the Commission had certain internal control weaknesses and did not comply with all fund control laws and regulations during the year ended September 30, 1982.

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GAO/AFMD-84-40
JUNE 26, 1984

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-192886

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the financial statements of the Federal Election Commission for the year ended September 30, 1982. Our examination was made at the request of the Commission and in accordance with generally accepted government auditing standards.

The Federal Election Commission was established in 1975 as an independent agency in the executive branch of the Federal Government. The Commission formulates policies and regulations, and audits compliance with the Federal Election Campaign Act of 1971, as amended. In addition, the Commission authorizes payments to candidates from the Presidential Election Campaign Fund.

We are sending copies of this report to the Director of the Office of Management and Budget and the Chairman of the Federal Election Commission.

for Milton J. Socolar
Comptroller General
of the United States

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-192886

To the Chairwoman
Federal Election Commission

We have examined the statement of financial position of the Federal Election Commission as of September 30, 1982, and the related statements of operations, changes in financial position, and changes in government equity for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As part of our examination of the Commission's financial statements, we made an evaluation of its system of internal accounting controls and its compliance with laws and regulations and have issued our reports thereon which are included as Appendixes I and II. We found weaknesses in internal controls and noncompliance with fund control laws and regulations which compelled us to withdraw our earlier approval of the Commission's accounting system. In view of these weaknesses we expanded the nature and extent of our audit procedures to enable us to render an opinion on the Commission's financial statements.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Election Commission as of September 30, 1982, and the results of its operations and the changes in its financial position and government equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

for Milton J. Socolar
Comptroller General
of the United States

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REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the financial statements of the Federal Election Commission for the year ended September 30, 1982, we made a study and evaluation of the system of internal accounting control of the Commission to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

--Revenues.
--Expenses.
--Financial reporting.

The management of the Commission is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of accounting controls included all of the control categories listed in the first paragraph. The purpose of our study was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Commission's financial statements. Our study of the above control categories disclosed the following conditions that we believe could result in errors or irregularities in amounts that would be material in relation to the financial statements of the Commission and would not be detected soon enough. As a result, we determined it was necessary to perform extensive substantive tests of the accounting records and transactions.

1. During our study and evaluation of the Commission's expense and financial reporting cycles, we determined that the Commission had incorrectly charged fiscal year 1982 obligations to funds appropriated for other fiscal years. This is not in compliance with 31 U.S.C. 1502. The Commission has corrected these errors which increased the Commission's fiscal year 1982 expenditures reported to the Treasury by $243,394. (See app. II.)

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2. During our study, we also found other weaknesses in controls over collections, accounts receivable, imprest funds, and office equipment.

These weaknesses in internal controls led us to conclude that the system was not operating in accordance with the system design previously approved by us and that it does not comply with our standards. Therefore, after discussion with the Commissioners at a hearing in July 1983, we withdrew approval of the system in a letter to the Chairman of the Commission dated January 9, 1984. (See app. IV.)

These conditions were considered in determining the nature, timing, and extent of audit tests applied in the examination of the 1982 financial statements, and this report on internal controls does not affect our opinion on those financial statements.

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REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Federal Election Commission for the year ended September 30, 1982. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion the Federal Election Commission, except for those instances of material noncompliance described in the following paragraphs, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Commission's financial statements.

The Commission incorrectly charged fiscal year 1982 obligations to funds appropriated for other fiscal years. This is not in compliance with 31 U.S.C. 1502. Upon discovery of these errors, the Commission adjusted its financial records and reflected the adjustments in its financial statements. The total effect of such adjustments was to increase the Commission's fiscal year 1982 expenditures reported to the Treasury by $243,394. In addition, an employee embezzled $559,887 in Commission funds near the end of fiscal year 1982. Subsequently, the employee was arrested and $162,281 in uncashed checks was recovered and returned to the Treasury, resulting in a net embezzlement of $397,606. As a result, fiscal year 1982 obligations exceeded the available balance of 1982 appropriated funds which was not in compliance with 31 U.S.C. 1341. Assets estimated at $229,106 were seized and the employee was later convicted of embezzlement. Receipts from disposal of the assets have been returned to the Treasury and credited to the Commission. The proceeds from disposal of the seized assets were sufficient to satisfy the overobligation and the Commission did not require a deficiency appropriation for fiscal year 1982.

During our examination, we did not note any other instance of material noncompliance that caused us to believe that the Commission was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The conditions shown above were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and these conditions do not affect our opinion on the Commission's financial statements for the year ended September 30, 1982.

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APPENDIX III

FEDERAL ELECTION COMMISSION
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1982 (notes 1 and 2)

ASSETS

Current assets:	
Fund balance in U.S. Treasury (note 3)	$ 486,961
Cash on hand	7,500
Total current assets	494,461
Recovered property and other assets (note 4)	397,606
Less allowance for losses	(168,500)
Net recovered property	229,106
Office equipment (note 2)	575,554
Less accumulated depreciation	(181,177)
	394,377
Total Assets	$1,117,944

LIABILITIES AND EQUITY

Current liabilities:	
Accounts payable	$ 85,162
Accrued salaries and benefits	281,718
Payroll taxes withheld	27,020
Other	21,312
Total current liabilities	415,212
Accrued annual leave (note 2)	284,412
Total liabilities	699,624
Equity of the U.S. Government:	
Invested capital	394,377
Appropriations obligated but unexpended	308,355
Cumulative results of operations (note 2)	(284,412)
Total equity	418,320
Total liabilities and equity	$1,117,944

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

FEDERAL ELECTION COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1982 (notes 1 and 2)

EXPENSES	
Personnel compensation and benefits	$6,890,689
Travel and transportation	54,409
Rent, communications, and utilities	998,205
Printing and reproduction	90,271
Other contractual services	636,308
Supplies and materials	87,436
Depreciation	81,177
Estimated loss on recovered assets	168,500
Total expenses	9,006,995
APPROPRIATIONS AND REVENUES	
Expended appropriations	8,924,169
Civil penalties	132,785
Miscellaneous receipts	62,240
Total revenues	195,025
Amortization of invested capital	81,177
Total appropriations and revenues	9,200,371
Excess of appropriations and revenues over expenses	193,376
Less funds returned to the U.S. Treasury	(193,376)
Results of operations for the year	$ -0-

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

FEDERAL ELECTION COMMISSION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1982 (notes 1 and 2)

Treasury fund balance and cash on hand, beginning of year	$1,048,674
Funds were provided from:	
Appropriations	9,174,400
Civil penalties and miscellaneous receipts	195,025
Amortization of invested capital	81,177
Increase in current liabilities	162,217
Decrease in accounts receivable	29,941
Total funds provided	9,642,760
Funds were used for:	
Operating expenses	9,006,995
Funds returned to U.S. Treasury	193,376
Unexpended balances withdrawn	357,484
Purchases of equipment	12,947
Increase in net recovered property	229,106
Other	397,065
Total funds used	10,196,973
Treasury fund balance and cash on hand, end of year	$ 494,461

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

FEDERAL ELECTION COMMISSION
STATEMENT OF CHANGES IN GOVERNMENT EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 1982 (notes 1 and 2)

	Total government equity	Invested capital	Unexpended appropriations	Cumulative results of operations
Balance, September 30, 1981	$1,159,964	$629,647	$825,620	$(295,303)
Appropriations received	9,174,400	-	9,174,400	-
Appropriations expended (note 6)	(9,334,181)	-	(9,334,181)	-
Unexpended appropriations withdrawn (note 4)	(357,484)	-	(357,484)	-
Increase in cumulative results of operations	10,891	-	-	10,891
Increase in office equipment	12,947	12,947	-	-
Amortization of invested capital	(81,177)	(81,177)	-	-
Adjustment of equipment records (note 5)	(167,040)	(167,040)	-	-
Balance, September 30, 1982	$ 418,320	$394,377	$308,355	$(284,412)

The accompanying notes are an integral part of these financial statements.

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FEDERAL ELECTION COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Organization

The Federal Election Commission was established in 1976 as an independent agency in the executive branch of the Federal Government. The Commission is composed of six voting members appointed by the President, with the consent of the Senate. The Secretary of the Senate and the Clerk of the House of Representatives, or their designees, serve as ex officio members and may not vote. The commissioners formulate policies and regulations, and audit compliance with the Federal Election Campaign Act of 1971, as amended (2 U.S.C. 431 et seq.).

The act provides for disclosure of the financial activities of federal candidates and their political committees; limitations on contributions to and expenditures by such candidates and committees; and the organization and registration of political committees. In addition, the Presidential Election Campaign Fund was established in the U.S. Treasury to publicly finance Presidential elections. The Commission authorizes the Secretary of the Treasury to make payments from the Fund to eligible candidates. These financial statements do not include the Presidential Election Campaign Fund as it is not available for operations of the Commission.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation--The financial statements are presented on the accrual basis of accounting following generally accepted accounting principles.

Equipment and Furniture--Equipment and furniture are carried at cost and are depreciated on a straight-line basis over a 5- to 8-year estimated useful life. Leased copying and data processing equipment are not included in the accounts until a lease-purchase option is exercised.

Accrued Annual Leave--The Commission accrues annual leave earned by employees but not yet taken as of the end of each fiscal year. The accrued leave is not funded by appropriations until taken and, consequently, the accrued annual leave results in an equal deficit in the cumulative results of operations.

Pensions--The Commission's employees are covered by the Civil Service Retirement and Disability Fund. Consequently, the Commission must withhold seven percent of each employee's salary and contribute a matching amount to the plan. The Commission's matching contribution in 1982 was $544,000.

Related Parties--The Commission is subject to budgetary and management controls by the Office of Management and Budget and by oversight by the Congress.

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Note 3. Fund balance in the U.S. Treasury

The Commission disburses funds from its appropriated fund balance account in the U.S. Treasury. The fund balance as of September 30, 1982, has been reduced by fraudulent disbursements made by an employee in 1982. (See note 4.) The funds received from the disposal of recovered property and other assets will be deposited in the U.S. Treasury to the credit of the Commission. (See note 4 for further details.)

Note 4. Recovered property and other assets

During 1982, an employee fraudulently disbursed Commission funds from the U.S. Treasury and diverted cash receipts in the amount of $559,887. Subsequently, the employee was arrested and $162,281 in uncashed checks was recovered and returned to the Treasury. In addition, the Treasury withdrew from the Commission's funds available for obligation $397,606, the remainder of funds embezzled, less a $40,122 unrelated adjustment to the Commission's appropriation account. Also, real estate, cars, and other assets purchased by the former employee with the embezzled funds were seized by the Justice Department and sold. Receipts from disposal of the assets have been returned to the Treasury. An allowance has been established to reflect potential loss of the remaining funds embezzled. The Justice Department has negotiated an agreement with the former employee for restitution of the full amount of any loss.

Note 5. Write-down of office equipment

During 1982, the Commission performed a physical inventory of its office equipment. The records of the Commission were adjusted to reflect the physical inventory. This adjustment amounted to $167,040. The invested capital account was adjusted accordingly to reflect this write-down.

Note 6. Compliance with laws and regulations

The Commission incorrectly charged certain fiscal year 1982 obligations to funds appropriated for other fiscal years. This is not in compliance with the provisions of 31 U.S.C. 1502. Upon discovery of these errors, the Commission adjusted its financial records and statements. The total effect of such adjustments was to increase the Commission's fiscal year 1982 expenditures reported to the Treasury by $243,394.

In addition, the embezzlement of funds, discussed in note 4, caused fiscal year 1982 obligations to exceed the 1982 appropriated funds, which is not in accordance with 31 U.S.C. 1341. Receipts from disposal of the assets were returned to the Treasury to the credit of the Commission. The proceeds from the disposal of the seized assets have fully provided for the overobligation and thus the Commission did not require a deficiency appropriation for fiscal year 1982.

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APPENDIX IV

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B- 192886

January 9, 1984

The Honorable Danny L. McDonald
Chairman
Federal Election Commission

Dear Mr. McDonald:

Subject: Withdrawal of Approval of the Federal Election Commission Accounting System (GAO/AFMD-84-30)

We have completed a review of the Federal Election Commission accounting system in operation, as requested by the Commission. Our review revealed substantial deviations from the system design we approved on September 30, 1981. The deviations led us to conclude that the system was not operating in accordance with the approved design and that it does not comply with General Accounting Office standards. Therefore we must withdraw approval of the system until the deviations have been corrected.

The deviations have been discussed with Commission staff, and we have provided them a detailed description of our findings. The nature of the more significant deviations is summarized below:

--Lack of basic documentation for portions of the system that have been automated since the system was approved. Such documentation is needed to describe how data are to be coded, entered, verified, and otherwise controlled. The lack of this documentation, in combination with losses of accounting staff, created backlogs, record errors, and a general loss of financial control and reliability of financial data at the Commission in 1982.

--Nonoperation of a transaction register that is needed to provide financial information on the accrual basis, and to complete the accounting cycle for certain transactions. Nonoperation of this register results in misstatement of certain account balances and inaccurate accounting reports, unless manual adjustments are made.

--Lack of certain subsidiary files that are needed to support related general ledger account balances, and to provide control by periodically reconciling the subsidiary files to the general ledger accounts.

--Nonuse of several necessary general ledger accounts that are needed for adequate disclosure of the Commission's financial position and costs of operations.

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APPENDIX IV

--Lack of accountability for property owned by, or loaned to, the Commission. The lack of property accountability results not only in inaccurate financial reporting, but also precludes prevention and detection of errors, losses, and irregularities in the control of these assets.

--Accounting staff vacancies in 1982 that precluded adequate separation of duties needed to minimize risks of fraud and error. The lack of this basic internal control was clearly a causal factor in the 1982 embezzlement. The accounting staff level prescribed in the approved system design is a minimum level necessary for proper separation of duties.

During our review of the system, we noted that several of the deviations and related problems were being corrected. When the deviations are corrected, we will be pleased to consider reapproval of the system.

We wish to express our appreciation to officials and staff of the Commission for their cooperation during our review, not only of the accounting system, but also of the Commission's internal controls and its fiscal year-end financial statements. While we regret the need to withdraw approval of the accounting system, we sincerely hope our report will help contribute to continued improvements in financial management at the Commission.

Sincerely yours,

Milton J. Socolar

for Comptroller General
of the United States

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